

ORIGINAL

OPEN MEETING AGENDA ITEM

MEMORANDUM



0000141487

TO: Docket Control Center

FROM: Steven M. Olea
Director
Utilities Division

EA for SMD

DATE: January 17, 2013

RE: **APS REPLY TO STAFF RESPONSE – ARIZONA PUBLIC SERVICE COMPANY – APPLICATION FOR AN ORDER OR ORDERS AUTHORIZING IT TO ISSUE, INCUR AND AMMEND EVIDENCES OF LONG-TERM INDEBTEDNESS AND OTHER LONG-TERM SECURITIES, TO MANAGE INTEREST RATE RISK, TO EXECUTE NEW SECURITY INSTRUMENTS TO SECURE ANY SUCH INDEBTEDNESS OR OTHER LONG-TERM SECURITIES AND FOR DECLARATORY ORDER CONCERNING VARIABLE INTEREST ENTITIES –DOCKET NO. E-01345A-11-0423**

On November 2, 2012, Commission Staff filed its Staff Report in the above captioned docket. On November 8, 2012, APS filed comments on the Staff Report. On December 4, 2012, Commission Staff filed a Response to the comments filed by APS. On December 12, 2012, the Commission issued Decision No. 73619, extending the relevant portions of the 2007 Order pending resolution of this Docket. On December 27, 2012, APS filed a Reply to Staff's Response.

Staff has reviewed APS' Reply, and hereby submits its Response.

SMO:JAC:kdh/BAS:MAS

Originator: John A. Cassidy

Attachment: Original and sixteen copies

Arizona Corporation Commission
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JAN 17 2013

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Service List for: ARIZONA PUBLIC SERVICE COMPANY
Docket No. E-01345A-11-0423

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Introduction

On November 22, 2011, Arizona Public Service Company (“APS”) filed an application with the Arizona Corporation Commission (“Commission”) requesting authorization for various financing transactions. On November 2, 2012, Staff filed its Staff Report in the matter, requesting that comments be filed on or before November 9, 2012. On November 8, 2012, APS filed Comments to the Staff Report (“Comments”). On December 4, 2012, Commission Staff filed a Response to the comments filed by APS; therein, Staff concurred with APS on all issues contested, excepting two. On December 12, 2012, the Commission issued Decision No. 73619, extending the relevant portions of the 2007 Order pending resolution of this Docket. On December 27, 2012, APS filed a Reply to Staff’s Response, and therein suggests a compromise as a means of resolving the two remaining contested issues. With the modifications discussed below, Staff and APS are in agreement on the two remaining issues between Staff and APS on APS’ application. With the resolution of these two remaining issues, there are no further issues in dispute between APS and Staff.

Resolution and Recommendation

The two contested issues concern the ordering language used in Staff Recommendation 1(a) and Staff Recommendation 6. In the Staff Report, Staff Recommendation 1(a) initially called for APS to maintain an equity ratio of 40 percent of total capital (common equity, preferred stock, long-term debt and short-term debt) as a condition for issuing new debt. In the Comments filed in response to the Staff Report, APS took exception to the inclusion of short-term debt in the calculation. Consequently, in its Response to APS’ comments, Staff proposed a modification to Staff Recommendation 1(a) whereby short-term debt would be excluded from total capital (common equity, preferred stock and long-term debt) for purposes of the equity test, accompanied by an increase in the equity ratio from 40 percent to 42 percent. In its Reply to Staff’s Response, APS has expressed a willingness to accept Staff’s proposed change to Staff Recommendation 1(a).¹

Staff Recommendation 6 relates to the expiration of the debt authorizations contemplated in this docket. In the Staff Report, Staff Recommendation 6 called for the short-term and long-term debt levels authorized in this proceeding to expire on December 31, 2016. Based upon arguments made by APS in the Comments that the ordering language of Staff Recommendation 6 failed to adequately make it clear that debt properly issued by APS prior to Staff’s stipulated December 31, 2016 expiration date would remain valid in accordance with its terms, Staff subsequently modified Staff Recommendation 6 in its Response to APS’ Comments to read as follows:

6. That the short-term and long-term debt levels authorized in this proceeding remain valid until otherwise further ordered by the Commission, but expire no later than December 31, 2017.

¹ In its Reply to Staff’s Response, APS refers to this change as, “Option 2.”

In its Reply to Staff's Response, APS argues that despite Staff having extended the end-term date certain for the recommended debt authorizations in this proceeding, from December 31, 2016, to December 31, 2017, Staff nevertheless makes no provision for automatic extension of the authorizations similar to that previously approved by the 2007 Order for short-term debt. APS points out that the absence of such a provision is what "necessitated the Commission's extraordinary act of reopening the 2007 Order under A.R.S. Section 40-252," thereby serving as a compelling argument in favor of such a provision. To facilitate this process, APS has proposed ordering language which makes provision for such automatic extension for both short-term and long-term debt, so long as APS files a new application requesting extension or expansion of the debt authorizations granted in this proceeding at least one year prior to their expiration. APS asks that its proposed ordering language be used in any final order in this matter, and reads as follows:

IT IS FURTHER ORDERED that, the authorizations granted in this proceeding shall expire after December 31, 2017, unless the Company files an application with the Commission prior to January 1, 2017, seeking to continue or expand such authorizations. In that instance, the authorizations approved herein shall continue until further order of the Commission.

After consideration of the matter, Staff recommends adoption of APS' proposal and proposed ordering language.

APS' acceptance of Staff's modification to Staff Recommendation 1(a) discussed above and Staff's acceptance of APS' proposal to modify Staff Recommendation 6 discussed above resolves all remaining issues between Staff and APS in this Docket.